

AN IMPROVED METHOD FOR ESTIMATING TOTAL TAXABLE RESOURCES, TTR

After an extensive review of the original methodology for estimating Total Taxable Resources (TTR) revealed several technical shortcomings, the Department of Treasury has developed a revised method for estimating TTR that is consistent with the TTR theoretical framework. The revised methodology has been subjected to extensive review from a panel of outside experts with knowledge in the measurement of fiscal capacity. There was a consensus that the revised method represents a substantial improvement over the original method for estimating TTR.

Under Public Law 103-321, the U.S. Department of Treasury is required to produce annual estimates of TTR, as defined by the Secretary of Treasury. TTR is used as a measure of the relative fiscal capacity of the states in two block grant programs, the Community Mental Health Services Block Grant and the Substance Abuse Prevention and Treatment Block Grants. The total level of funding for both of these block grants combined has increased from \$805 million in FY 1993 to \$1.7 billion for FY 1998.

Like any other statistic, TTR was due for a periodic review to ensure that it represents the best possible estimate given the available data, especially given its increased acceptance by policy makers and analysts. Since 1990, several General Accounting Office (GAO) analyses of the current formula to determine the Federal Medicaid matching rates have recommended that TTR be used as a measure of fiscal capacity instead of personal income. In addition, the GAO has also used TTR in an analysis of state spending on education, and the Department of Transportation has used TTR to measure state's efforts in highway spending. Several other Federal agencies have inquired about TTR for possible use as a measure of fiscal capacity.

In the very near future, the Economic Policy web page (www.ustreas.gov click on Treasury Offices) will contain a summary of the revised methodology and the working paper by Michael Compson and John Navratil that evaluates the previous method for estimating TTR and lays the theoretical foundation underlying the improved methodology. We also hope to have historical estimates of TTR using the revised methodology on the web page relatively soon. The web page will also include a summary of the previous methodology for estimating TTR.

The revised methodology for estimating TTR reflects Treasury's commitment to generate the best possible estimates of TTR. This commitment is viewed as an ongoing process. To that end, the Department of Treasury encourages individuals to send any comments or suggestions they may have regarding methods for calculating TTR to Michael Compson at the Office of Economic Policy, U.S. Department of Treasury, 1500 Pennsylvania Ave., NW, Washington, DC 20220.